

DIAMOND STATE PORT CORPORATION
FINANCIAL STATEMENTS
JUNE 30, 2007

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Independent Auditors' Report

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

We have audited the accompanying financial statements of the Diamond State Port Corporation, a component unit of the State of Delaware, as of and for the years ended June 30, 2007 and 2006, as listed in the index. These financial statements are the responsibility of the Diamond State Port Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diamond State Port Corporation as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2007 on our consideration of the Diamond State Port Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report and in considering the results of our audit.

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Independent Auditors' Report (Cont'd.)

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

McBride, Shogan & Co

Wilmington, Delaware
August 20, 2007

Management's Discussion and Analysis

(all amounts in \$'000)

As management of the Diamond State Port Corporation (the Port), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information detailed in the audited financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Port exceeded its liabilities at June 30, 2007 by \$151,341 (*net assets*). Included in this amount is \$127,162 invested in capital assets net of related debt; and restricted net assets of \$20,729 after providing for relevant liabilities for payments to capital projects vendors and for debt service payments.
- The Port's total net assets increased by \$21,153. The Port incurred a net loss of \$2,247 before Capital Contributions and Special Item. A comparable net loss for FY 2006 was \$3,534. The loss of \$2,247 was offset by \$23,400 received from the State of Delaware for capital improvement projects under the Bond and Capital Improvement Act.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements are comprised of four components:

1) Statement of Net Assets, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Statement of Net Assets presents information on all of the Port's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets, when read in conjunction with other data, may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Port's operations generated revenues and required expenses, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., outstanding invoices and earned but unused vacation leave).

The Statement of Cash Flows presents information showing the Port's cash receipts and payments during the fiscal period classified by principal sources and uses segregated into key elements.

Notes to the Financial Statements. The Notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Basis of Accounting: The Financial Statements of the Port are prepared on the accrual basis of accounting in conformity with U.S. Generally Accepted Accounting Principles (GAAP) applicable to governmental entities as prescribed by the Government Accounting Standards Board (GASB). The Port is a component unit of the State of Delaware. The Port's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges. The Port has adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, which provides for the consistent application of GASB pronouncements.

Financial Analysis

As noted earlier, Net Assets, when read in conjunction with other data, may serve over time as a useful indicator of the financial position of the Port. Port assets exceeded liabilities by \$151,341 at the close of FY 2007.

Port's Net Assets (\$ '000)

	2007	2006
Current and other assets	\$ 27,300	\$ 15,646
Capital assets	164,832	164,539
Total assets	192,132	180,185
Long-term liabilities outstanding	36,733	36,398
Other liabilities	4,058	13,599
Total liabilities	40,791	49,997
Net assets:		
Invested in capital assets, net of related debt	127,162	116,708
Restricted	20,729	7,132
Unrestricted	3,450	6,348
Total net assets	\$ 151,341	\$ 130,188

By far the largest portion of the Port's net assets (84%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The increase in net assets invested in Capital assets from \$116,708 in FY 2006 to \$127,162 in FY 2007 is mainly due to infrastructure improvements and equipment purchases. The Port uses these capital assets to provide services to port users; consequently, these assets are *not* available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Port's net assets represents resources that are subject to external restrictions on how they may be used. The value of restricted assets includes \$23,400 grants for Capital improvement projects received from the State of Delaware as reduced by expenditure and outstanding liabilities incurred while creating such restricted assets, usable only for payments for Capital projects. The balance of net assets - \$3,450 - represents *unrestricted net assets* available for any Port related business use. The decrease of \$2,898 from the unrestricted net assets of \$6,348 as of June 30, 2006 reflects; the income before depreciation, reduction in current liabilities, receipt of bond bill capital funding, as well as changes to other categories of Net Assets of the Port during FY 2007.

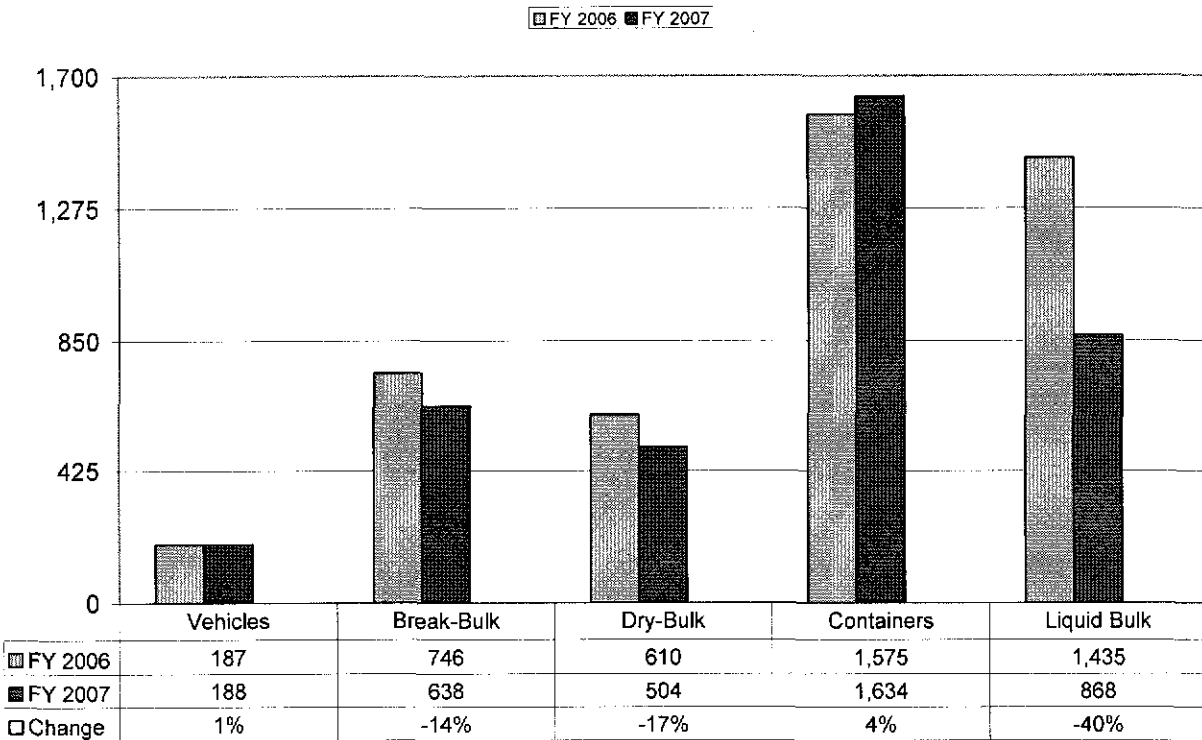
Port Activities. Port activities reduced the Port's net assets by \$2,247. Key elements of this change are as follows:

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Cargo Handling	\$ 14,073	\$ 14,539
Dockage & Wharfage	7,227	7,226
Leasing & Storage	7,004	7,370
Other	<u>2,317</u>	<u>1,845</u>
Total Operating Revenues	30,621	30,980
Operating Expenses:		
Salaries, Wages & Benefits	17,283	17,005
Materials, Supplies & Services	9,785	11,061
Depreciation	<u>5,192</u>	<u>4,687</u>
Total Operating Expenses	<u>32,260</u>	<u>32,753</u>
Operating Income (Loss):	(1,639)	(1,773)
Interest (expense)	(1,510)	(2,311)
Interest income	1,106	551
Loss on disposition of assets	<u>(204)</u>	<u>-</u>
Net Loss – before Capital Contributions and Special Item:	(2,247)	(3,533)
Capital Contributions	23,400	15,710
Special Item	<u>-</u>	<u>396</u>
Increase in Net Assts	21,153	12,573
Net Assets – Beginning	<u>130,188</u>	<u>117,615</u>
Net Assets – Ending	<u>\$151,341</u>	<u>\$130,188</u>

Cargo Tonnage:

A total of 3.8 million tons of cargo passed over the Port's facilities in FY 2007, a decrease of 15% of the 4.5 millions handled in FY 2006.

Cargo Volume by groups ('000 short tons)

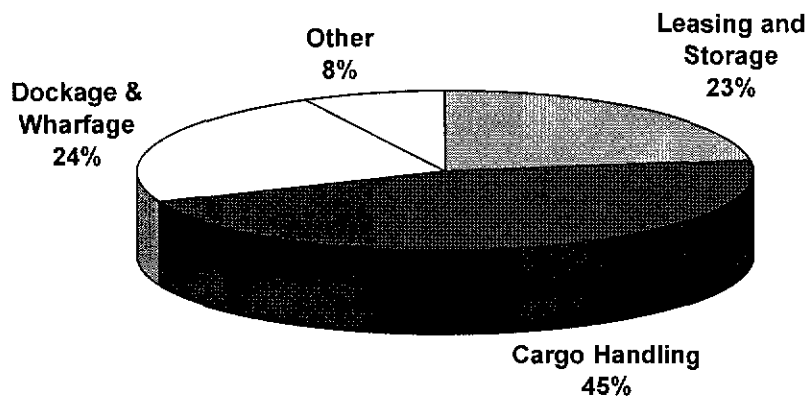


The overall tonnage decrease was due primarily to the sharp decline in petroleum liquid bulk products of nearly 0.6 million tons. A decline in lumber, palletized bananas, and the loss of the meat business led to the reduction in the break bulk volume. Petrocoke and miscellaneous charter volume decline accounted for the dry bulk shortfall.

Operating Revenue:

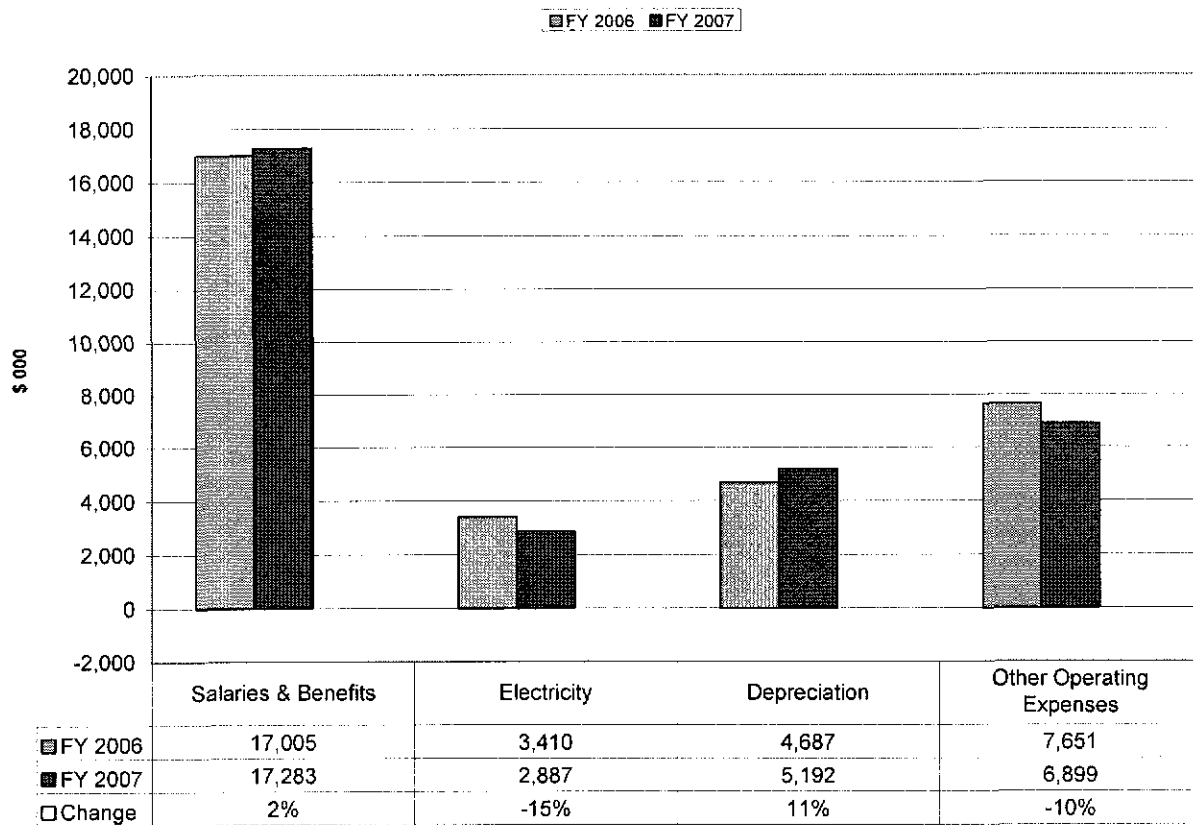
During FY 2007, the Port earned \$30,621 as operating revenue. This is a decline of \$359 from the operating revenue of \$30,980 earned in FY 2006.

The loss of the meat business and reduction in lumber palletized banana volumes produced corresponding decreases and cargo handling revenues. Storage revenue in FY 2007 was \$2,642, a reduction of \$828 from the \$3,470 storage revenue earned in FY 2006, due almost entirely to the absence of meat. Leasing revenue increased from \$3,900 in FY 2006 to \$4,363 in FY 2007 partly because of a full twelve months of Warehouse H lease revenue compared to four months in FY 2006.

Revenues by Source

Operating Expenses:

Total operating expense of \$ 32,260 in FY 2007 is a reduction of \$493 or 1.5% from FY 2006.



Salaries and benefit expense increased by \$278 in FY 2007. Reduction in break bulk cargo volumes and productivity improvements allowed for a reduction labor hours hired, offset by higher wage rates and benefit expenses. The \$523 reduction in electricity expense was due to the reduction in frozen meat storage required and a new purchasing approach. Reductions in equipment rental requirements (reduced cargo and increases in DSPC owned equipment), coupled with a reduction in repair and maintenance expense were the main contributors to the decrease in other operating expenses. A full year of Warehouse H usage and additions to the equipment fleet were significant contributors to the increase in depreciation expense.

Capital Asset and Debt Administration

Capital assets: The Port's investment in capital assets as of June 30, 2007, amounts to \$164,832 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, docks and wharves, and machinery and equipment. The net increase in the Port's investment in capital assets for the current fiscal year was \$293.

Major capital assets acquired during FY 2006 include the purchase of handling equipment and security infrastructure.

		Capital Assets	
		(\$ '000)	
		2007	2006
Land and Improvements	\$	36,164	\$ 34,967
Buildings		86,476	83,849
Docks & Wharves		45,168	45,057
Equipment		22,977	22,970
Streets and Utilities		4,924	4,937
Vehicles and other assets		7,875	7,553
Sub total		203,584	199,333
Accumulated Depreciation		(40,214)	(35,376)
Total		163,370	163,957
Construction in progress		1,462	582
Total	\$	<u>164,832</u>	<u>\$ 164,539</u>

Additional information on the Port's capital assets can be found in Note 5 of Notes to Financial Statements.

Long-term Notes Payables: At the end of the current fiscal year, the Port had total Notes Payables outstanding of \$37,670. Of this amount, \$12,747 comprises debt to the City of Wilmington incurred at the time of the acquisition of the Port by the State of Delaware from the City of Wilmington in 1995. DRBA is owed \$4,000, as part of their financial participation in Warehouse H. The Delaware Department of Transportation (DelDOT) Transportation Trust Fund is owed \$20,923 for funds borrowed during FY 2002 and subsequent years.

Additional Information is available in Note 8 of Notes to Financial Statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,769,339	\$ 4,161,347
Accounts receivable - net	2,673,401	3,046,270
Inventory	526,956	488,875
Prepaid expenses and other assets	<u>601,164</u>	<u>818,061</u>
	6,570,860	8,514,553
RESTRICTED ASSETS		
Cash and cash equivalents	20,728,924	7,131,866
CAPITAL ASSETS - NON-DEPRECIABLE	26,966,920	26,086,611
CAPITAL ASSETS - DEPRECIABLE, net	<u>137,865,818</u>	<u>138,452,107</u>
TOTAL ASSETS	<u><u>\$ 192,132,522</u></u>	<u><u>\$ 180,185,137</u></u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Accounts payable	\$ 187,844	\$ 141,500
Accrued expenses	2,711,301	1,777,667
Accrued interest payable	142,203	61,672
Due to the state of Delaware- pension costs	58,137	62,189
Notes payable - current	936,591	11,432,500
Deferred revenue	<u>21,680</u>	<u>123,304</u>
Total current liabilities	4,057,756	13,598,832
 NOTES PAYABLE - LONG-TERM	 <u>36,733,576</u>	 <u>36,398,353</u>
 TOTAL LIABILITIES	 40,791,332	 49,997,185
 NET ASSETS		
Invested in capital assets - net of related debt	127,162,571	116,707,865
Restricted		
Capital Improvement Fund	20,728,924	7,131,866
Unrestricted	<u>3,449,695</u>	<u>6,348,221</u>
 TOTAL NET ASSETS	 <u>151,341,190</u>	 <u>130,187,952</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 192,132,522</u>	 <u>\$ 180,185,137</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Handling	\$ 14,072,630	\$ 14,538,943
Dockage and wharfage	7,226,609	7,225,705
Leasing	4,362,663	3,899,813
Storage	2,641,940	3,470,146
Equipment rental	1,495,590	1,379,792
Other operating revenue	<u>821,929</u>	<u>465,083</u>
	30,621,361	30,979,482
OPERATING EXPENSES		
Salaries and benefits	17,282,783	17,005,428
Materials, supplies and contractual services	9,785,330	11,060,621
Depreciation expense	<u>5,192,395</u>	<u>4,687,094</u>
	<u>32,260,508</u>	<u>32,753,143</u>
OPERATING LOSS	(1,639,147)	(1,773,661)
NONOPERATING INCOME (EXPENSE)		
Interest expense	(1,509,779)	(2,311,013)
Interest income	1,106,033	550,722
Loss on disposition of assets	<u>(203,869)</u>	<u>-</u>
	<u>(607,615)</u>	<u>(1,760,291)</u>
NET LOSS BEFORE CAPITAL CONTRIBUTION AND SPECIAL ITEM	(2,246,762)	(3,533,952)
CAPITAL CONTRIBUTIONS		
State Bond Bill	23,400,000	15,500,000
Federal	<u>-</u>	<u>210,414</u>
	<u>23,400,000</u>	<u>15,710,414</u>
SPECIAL ITEM		
Gain from early repayment of debt	<u>-</u>	<u>396,233</u>
INCREASE IN NET ASSETS	21,153,238	12,572,695
NET ASSETS - BEGINNING	<u>130,187,952</u>	<u>117,615,257</u>
NET ASSETS - ENDING	<u>\$ 151,341,190</u>	<u>\$ 130,187,952</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	\$ 30,996,407	\$ 31,040,673
Cash payments to suppliers for goods and services	(7,663,240)	(10,262,277)
Cash payments to employees for services	(17,227,886)	(17,303,761)
Cash payments for insurance	<u>(1,068,062)</u>	<u>(1,115,965)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 5,037,219	 2,358,670
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	<u>1,048,049</u>	<u>520,518</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 1,048,049	 520,518
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Acquisition and construction of capital assets	<u>(451,041)</u>	<u>(127,728)</u>
 NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	 (451,041)	 (127,728)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(5,239,243)	(18,633,127)
Interest paid on loans and capital lease	(926,237)	(1,005,848)
Principal paid on loans	(1,263,697)	(2,984,944)
Proceeds from notes payable	600,000	3,400,000
Payments on capital lease	-	(31,962)
Contributed capital	<u>13,400,000</u>	<u>10,710,414</u>
 NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>6,570,823</u>	 <u>(8,545,467)</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,205,050	(5,794,007)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>11,293,213</u>	<u>17,087,220</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 23,498,263</u>	<u>\$ 11,293,213</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (1,639,147)	\$ (1,773,661)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	5,192,395	4,687,094
Net change in the allowance for doubtful accounts	18,028	(9,035)
(Increase) decrease in:		
Accounts receivable	412,825	(105,201)
Grants receivable	-	280,788
Prepaid expenses and other assets	216,897	(442,946)
Inventories	(38,081)	49,871
Increase (decrease) in:		
Accounts payable	46,344	38,754
Accrued expenses	933,634	(332,814)
Due to State of Delaware - pension costs	(4,052)	(14,112)
Deferred revenue	<u>(101,624)</u>	<u>(20,068)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,037,219</u>	<u>\$ 2,358,670</u>

**SUPPLEMENTAL SCHEDULES OF NONCASH CAPITAL
AND RELATED FINANCING ACTIVITIES**

Accretion of deferred loss	<u>\$ 19,292</u>	<u>\$ 18,691</u>
Disposal of fixed assets, resulting in loss of \$203,869 and \$0 during 2007 and 2006, respectively	<u>\$ 558,585</u>	<u>\$ 283,961</u>
Interest capitalized as principal portion of long-term debt	<u>\$ 483,719</u>	<u>\$ 1,379,660</u>
Contribution from State directly paying down Port Debt Service Note	<u>\$ 10,000,000</u>	<u>\$ 5,000,000</u>
Gain on advance payment of Port Debt Service Note	<u>\$ -</u>	<u>\$ 308,844</u>
Reduction of accrued interest due to advance payment of Port Debt Service Note	<u>\$ -</u>	<u>\$ 396,233</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 ORGANIZATION

The Diamond State Port Corporation (the Corporation) was created on August 3, 1995 in accordance with the provisions of Section 24(1) of Senate Bill 260 enacted by the 138th General Assembly of the State of Delaware (the State). The Corporation is a public instrumentality of the State of Delaware exercising essential government functions necessary in connection with the acquisition, establishment, construction, rehabilitation, improvement, operation, and maintenance of the Port of Wilmington (the Port) and related facilities. The Port was acquired by the Corporation on September 1, 1995. The Corporation is empowered without limitation, and notwithstanding any other laws, to adopt bylaws and rules and regulations to govern the conduct of its affairs and carry out and discharge its powers, duties, and functions, to sue and be sued, and to enter into contracts and agreements. The Corporation does not have power to tax, to issue bonds, to exercise the power of eminent domain, or to pledge the credit or create any debt or liability of the State of Delaware.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting. The accompanying financial statements of the Corporation have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). The Corporation (the reporting entity) is a component unit of the State of Delaware. The Corporation's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

Operating revenues and expenses generally result from providing services and leasing in connection with the Corporation's ongoing operations. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are recorded as nonoperating revenues and expenses. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is the Corporation's policy to first apply the expense towards restricted resources and then toward unrestricted resources.

The Corporation has adopted the provisions of GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting, which provide for the consistent application of GASB pronouncements and only pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, except where those FASB pronouncements conflict with GASB pronouncements in which case the GASB pronouncements take precedence.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Corporation considers short-term investments with an original maturity of three months or less to be cash equivalents.

Short-Term Investments. Short-term investments are stated at cost, which does not exceed estimated net realizable value.

Accounts Receivable. Accounts receivable are shown net of an allowance for doubtful accounts of \$66,356 and \$48,328 in 2007 and 2006, respectively.

Inventories. Inventories of equipment parts and marketing materials are stated at the lower of cost or market value.

Capital Assets. The assets originally acquired by the Corporation in 1995 were recorded based on estimated fair values. Nondepreciable assets consist of the estimated fair value of land, which was determined based on an independent appraisal, and construction-in-progress. The fair values of all other assets acquired were estimated to be the book value of those assets at the date of acquisition. Additions and improvements in excess of \$3,000 are capitalized.

Depreciation is generally recorded using the straight-line method and half-year convention over the following estimated useful lives:

Improvements (all categories)	20-30 years
Buildings and warehouses	30-75 years
Docks, wharves, and rail	50-60 years
Equipment and cranes	6-40 years
Streets and utilities	20-40 years
Vehicles, other	6 years

Revenues. The significant sources of revenue are:

Handling - represents charges against the owner of cargo for moving cargo into or out of storage, loading on or off trucks, or to or from a point of rest on the dock where it has been deposited.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Dockage and
wharfage -

represents charges assessed against vessels and barges for berthing at the wharf, pier, and bulkhead structures, handling lines for the docking and undocking of vessels, and represents charges assessed against vessels, or against another properly designated party, on all cargo passing or conveyed over, onto, or under wharves or between vessels when berthed at the wharf.

Leasing -

represents fees charged on a contractual basis for the rental of land or buildings at the Port. Rates are determined on a contract-by-contract basis.

Storage -

represents charges for the storage of cargo in the Port's dry, refrigerated and freezer warehouses and open areas.

Equipment

Rental -

represents charges for equipment use against vessels and barges that bring their own crews to load and unload cargo

Contributions of Capital. Contributions of capital arise from State and Federal grants, generally restricted to capital acquisition and construction. All capital grants and contributions are in the form of cash, which is then used to purchase capital assets, pay debt service, or fund other approved uses.

Compensated Absences. Regular full-time employees accrue vacation on a calendar year basis in varying amounts based on length of service. Employees can accumulate up to 400 hours, or 50 days of vacation time. Unused vacation time can be carried forward to the next benefit year in an amount up to the annual vacation amount. Upon termination, employees will be paid for unused vacation time.

Sick leave is earned by regular, full-time administrative employees at the rate of one day per month. Unused sick leave benefits accumulate indefinitely. Any sick leave hours unused will not be paid to employees while they are employed or upon termination of employment.

The liability for compensated absences through year-end, but not yet taken, is accrued.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Capital leases. The discount rate used to impute the present value of the future minimum lease payments is the lower of the Corporation's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Deferred loss. The Corporation incurred deferred losses on two refundings of the Port Debt Service Note in 2002 and 2005, which are being accreted over the *remaining life* of the Note at the time of each refunding.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, through subsequent events, actual results could differ from those estimated.

NOTE 3 CASH, INVESTMENTS AND RESTRICTED ASSETS

The Cash Management Policy Board: The Corporation follows the "Statement of Objectives and Guidelines for the Investments of State of Delaware", of the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State with certain limited exceptions.

Investment Guidelines and Management:

The State's Cash Management Policy categorizes all cash and special purpose funds for which the State is financially accountable as follows:

- A. Cash Accounts: Divide the State's available cash into three parts:
 - 1) Collection and Disbursement Accounts,
 - 2) Cash and Liquidity Accounts,
 - 3) Reserve Cash (Intermediate) Accounts.
- B. Special Purpose Accounts. There are two primary types of Special Purpose Accounts:
 - 1) Endowment Accounts,
 - 2) Authority Accounts: The State's Authorities (State Agencies, Local School Districts and Component Units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The Corporation's accounts are considered Authority Accounts.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

CASH, INVESTMENTS AND RESTRICTED ASSETS (Cont'd.)

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances. The State's Cash Management Policy is available on the Internet at <http://www.state.de.us/treasurer/information/cash.shtml>.

Custodial Credit Risk

Collateralization Requirements: All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 0.5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- (a) U.S. Government securities;
- (b) U.S. Government agency securities;
- (c) Federal Home Loan Board letters of credit;
- (d) State of Delaware securities; or
- (e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

At June 30, 2007, the financial institutions maintaining the Corporation's deposits satisfied the criteria listed above, and the deposits held by those institutions did not require collateralization.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

CASH, INVESTMENTS AND RESTRICTED ASSETS (Cont'd.)

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits, short-term money market funds and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and cash equivalents, as reported on the statement of net assets, is under the control of the Corporation. The Corporation invests the deposited cash, including the cash float in short-term securities and other investments.

At June 30, 2007, the carrying value and the bank balances of the Corporation's deposits were \$23,498,263 and \$23,998,338, respectively. Of the bank balances, \$100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and \$23,898,338 is subject to custodial credit risk because it is uninsured and uncollateralized. However, it is held at financial institutions that satisfied the criteria listed above and not requiring collateralization.

Investments

At June 30, 2007, the Corporation held no investments.

NOTE 4 RESTRICTED ASSETS

Restricted assets and the purpose of the restriction are as follows:

	<u>2007</u>	<u>2006</u>
Capital improvements	<u>\$ 20,728,924</u>	<u>\$ 7,131,866</u>

Assets restricted for capital improvements consist of contributions from the State of Delaware. These assets are invested in money market accounts. They are considered to be cash equivalents.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 CAPITAL ASSETS

Property and equipment changes during 2007 consisted of the following:

	<u>2006</u>	<u>Additions (Retirements)</u>	<u>Transfers</u>	<u>2007</u>
Capital assets, non-depreciable				
Land	\$ 25,504,410	\$ -	\$ -	\$ 25,504,410
Construction in progress	<u>582,201</u>	<u>5,690,284</u>	<u>(4,809,975)</u>	<u>1,462,510</u>
Total capital assets - non-depreciable	<u>\$ 26,086,611</u>	<u>\$ 5,690,284</u>	<u>\$ (4,809,975)</u>	<u>\$ 26,966,920</u>
Capital assets, depreciable				
Land improvements	\$ 9,462,091	\$ -	\$ 1,197,546	\$ 10,659,637
Buildings	83,848,791	(21,730)	2,649,237	86,476,298
Docks and wharves	45,057,018	-	111,461	45,168,479
Equipment	22,970,290	(506,212)	512,887	22,976,965
Streets and water utilities	4,936,929	-	(13,303)	4,923,626
Vehicles and other assets	<u>7,553,036</u>	<u>(30,643)</u>	<u>352,147</u>	<u>7,874,540</u>
Total capital assets, depreciable	173,828,155	(558,585)	4,809,975	178,079,545
Less: accumulated depreciation:				
Land improvements	4,380,292	619,629	-	4,999,920
Buildings	13,004,712	1,931,142	-	14,935,855
Docks and wharves	6,531,291	1,080,218	-	7,611,509
Equipment	5,318,022	562,736	-	5,880,758
Streets and water utilities	1,406,426	204,887	-	1,611,313
Vehicles and other assets	<u>4,735,305</u>	<u>439,067</u>	<u>-</u>	<u>5,174,372</u>
Total accumulated depreciation	<u>35,376,048</u>	<u>4,837,679</u>	<u>-</u>	<u>40,213,727</u>
Total capital assets, depreciable, net	<u>\$ 138,452,107</u>	<u>\$ (5,396,264)</u>	<u>\$ 4,809,975</u>	<u>\$ 137,865,818</u>

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

CAPITAL ASSETS (Cont'd.)

Depreciation expense was \$5,192,395 for 2007 and \$4,687,094 for 2006.

NOTE 6 LEASING REVENUE

The Corporation leases certain Port terminal and storage space to stevedoring and related tenants. Total rental income under these operating leases amounted to \$4,362,663 and \$3,899,813 for 2007 and 2006, respectively.

The following is a schedule of future minimum rentals under noncancelable operating leases as of June 30, 2007.

2008	\$ 4,449,497
2009	3,323,593
2010	2,509,162
2011	1,217,017
2012	435,116
Thereafter	<u>1,281,132</u>
	<u>\$ 13,215,517</u>

NOTE 7 REVOLVING LINE OF CREDIT

The Corporation has a \$3,000,000, unsecured, revolving line of credit from Wilmington Trust Company (WTC), none of which was outstanding at June 30, 2007 and 2006. Bank advances on the credit line are payable within 30 days of demand and carry an interest rate based on WTC's commercial rate index.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 8 LONG-TERM DEBT

Long-term debt changes during 2007 and 2006 were as follows:

		<u>2007</u>		
	Outstanding June 30, 2006	<u>Issued</u>	Payments and Other Reductions	Outstanding June 30, 2007
Transportation Trust				
Fund Note	\$ 31,031,266	\$ 483,719	\$ (10,592,336)	\$ 20,922,649
City of Wilmington Port				
Debt Service Notes	13,399,587	-	(652,069)	12,747,518
Delaware River and Bay				
Authority	<u>3,400,000</u>	<u>600,000</u>	<u>-</u>	<u>4,000,000</u>
Total notes payable	47,830,853	<u>\$ 1,083,719</u>	<u>\$ (11,244,405)</u>	37,670,167
Notes payable - current	<u>11,432,500</u>			<u>936,591</u>
Notes payable - long-term	<u>\$ 36,398,353</u>			<u>\$ 36,733,576</u>

		<u>2006</u>		
	Outstanding June 30, 2005	<u>Issued</u>	Payments and Other Reductions	Outstanding June 30, 2006
Transportation Trust				
Fund Note	\$ 29,651,606	\$ 1,379,660	\$ -	\$ 31,031,266
City of Wilmington Port				
Debt Service Notes	21,453,229	-	(8,053,642)	13,399,587
Delaware River and Bay				
Authority	<u>-</u>	<u>3,400,000</u>	<u>-</u>	<u>3,400,000</u>
Total notes payable	51,104,835	<u>\$ 4,779,660</u>	<u>\$ (8,053,642)</u>	47,830,853
Notes payable - current	<u>2,984,943</u>			<u>11,432,500</u>
Notes payable - long-term	<u>\$ 48,119,892</u>			<u>\$ 36,398,353</u>

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

LONG-TERM DEBT (Cont'd.)

Interest expense charged to operations during 2007 and 2006 was \$1,509,779 and \$2,311,013, respectively. Accrued interest changes during 2007 and 2006 were as follows:

	<u>2007</u>			
	<u>Accrued Interest June 30, 2006</u>	<u>Interest Expense Incurred</u>	<u>Payments and Other Reductions</u>	<u>Accrued Interest June 30, 2007</u>
Transportation Trust				
Fund Note	\$ -	\$ 971,586	\$ (891,383)	\$ 80,203
City of Wilmington Port				
Debt Service Notes	61,672	533,193	(537,865)	57,000
Delaware River and Bay				
Authority	-	5,000	-	5,000
Total accrued interest	<u>\$ 61,672</u>	<u>\$ 1,509,779</u>	<u>\$ (1,429,248)</u>	<u>\$ 142,203</u>

	<u>2006</u>			
	<u>Accrued Interest June 30, 2005</u>	<u>Interest Expense Incurred</u>	<u>Payments and Other Reductions</u>	<u>Accrued Interest June 30, 2006</u>
Transportation Trust				
Fund Note	\$ -	\$ 1,379,660	\$ (1,379,660)	\$ -
City of Wilmington Port				
Debt Service Notes	463,702	931,353	(1,333,383)	61,672
Delaware River and Bay				
Authority	-	-	-	-
Total accrued interest	<u>\$ 463,702</u>	<u>\$ 2,311,013</u>	<u>\$ (2,713,043)</u>	<u>\$ 61,672</u>

Transportation Trust Fund Loan. On November 30, 2001, the Corporation entered into a loan agreement with the Department of Transportation of the State of Delaware (DOT). The Corporation borrowed \$27,500,000. The funds were used to repay the balances in full of the original Delaware River and Bay Authority Note and the Wilmington Trust Company Note; and, at a discount, the City of Wilmington-Deferred Payment Note.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

LONG-TERM DEBT (Cont'd.)

In July 2006, the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006, and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next twenty-two years. Additionally, the State appropriated \$10,000,000 to be applied as a repayment of principal and interest on July 1, 2007. The interest rate of 4.6% remained unchanged. Beginning March 31, 2007, principal and interest payments are due March 1, and May 1, each year. The loan matures May 2028.

Interest capitalized as long-term debt during 2007 and 2006, as part of the restructuring, amounted to \$483,719 and \$1,379,660, respectively. Interest expense charged to operations during 2007 and 2006 was \$971,586 and \$1,379,660, respectively.

The future maturities of principal and interest payments on the Transportation Trust Fund Loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 35,243	\$ 964,757	\$ 1,000,000
2009	656,837	960,759	1,617,596
2010	687,245	930,351	1,617,596
2011	719,060	898,536	1,617,596
2012	752,348	865,248	1,617,596
2013-2017	4,317,566	3,770,413	8,087,979
2018-2022	5,413,865	2,674,114	8,087,979
2023-2027	6,788,532	1,299,447	8,087,979
After 2027	<u>1,551,953</u>	<u>65,643</u>	<u>1,617,596</u>
	<u>\$ 20,922,649</u>	<u>\$ 12,429,268</u>	<u>\$ 33,351,917</u>

City of Wilmington. In consideration for the acquisition of the Port assets from the City of Wilmington, Delaware (the City), the Corporation issued to the City a Port Deferred Payment Note, with an original amount of \$39,900,000, and a Port Debt Service Note with an original face amount of \$51,080,622, both secured by a first lien on substantially all of the Corporation's assets.

- a. Port Deferred Payment Note. In 2002, the remaining amounts due were prepaid to the City using the proceeds from the Transportation Trust Fund Loan.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

LONG-TERM DEBT (Cont'd.)

- b. Port Debt Service Note. The Port Debt Service Note requires payments to the City of amounts which equal the debt service of certain Port-related City general obligation bonds, with interest rates from 3.2% to 6.4%.

On June 30, 2006, the State of Delaware paid the City on behalf of the Corporation, \$5,000,000, in lieu of amounts due for the Port-related portions of the City's 1993B and 2004B bond payments due July 1, 2006 and July 1, 2007 totaling \$5,645,991, reducing the total amount owed to the City by \$5,645,991. The effect of the advance payment was a reduction of principal in the amount of \$5,087,389, a reduction of accrued interest due July 1, 2006 in the amount of \$308,844, and a resulting gain of \$396,233.

On October 5, 2004, the City issued \$12,945,000 of general obligation bonds with an average interest rate of 3.73% to advance refund \$11,655,000 of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of \$161,921 due January 1, 2005. The Port-related portions of the new bonds issued and old bonds redeemed were \$3,992,497 and \$3,594,635, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$397,862, it reduces the Corporation's debt service payments by \$251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2007 and 2006 was \$389,563 and \$393,559, respectively.

On October 20, 2001, the City issued \$22,165,000 of general obligation bonds with an average interest rate of 3.70% to advance refund \$21,335,000 of outstanding 1992 A, B and C Series general obligation bonds with an average interest rate of 6.16%. The Port related portions of the new bonds issued and old bonds redeemed were \$7,206,705 and \$6,945,086, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$261,619 for the year ended June 30, 2002, it reduced the Corporation's debt service payments by \$281,293 over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven-year life of the debt. The deferred loss balance as of June 30, 2007 and 2006 was \$40,291 and \$55,587, respectively.

Total deferred loss balance as of June 30, 2007 and 2006 was \$429,854 and \$449,146, respectively. The amortization of deferred loss of \$19,292 and \$18,691 during 2007 and 2006, respectively, is charged to interest expense .

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

LONG-TERM DEBT (Cont'd.)

Principal and interest payments made on the note were \$671,361 and \$518,573, respectively, during 2007, and \$2,984,943 and \$1,002,396, respectively, during 2006. Interest expense on the note in 2007 and 2006 was \$205,057 and \$909,210, respectively.

The future maturities of principal and interest payments on the Port Debt Service Note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 698,531	\$ 426,431	\$ 1,124,962
2009	2,291,194	540,904	2,832,098
2010	2,405,172	423,648	2,828,820
2011	1,350,612	328,915	1,679,527
2012	1,409,448	267,291	1,676,739
2013-2017	3,211,990	803,249	4,015,239
2018-2022	1,478,874	222,278	1,701,152
2023-2027	<u>331,551</u>	<u>6,965</u>	<u>338,516</u>
	13,177,372	3,019,681	16,197,053
Deferred loss on refunding	<u>(429,854)</u>	<u>-</u>	<u>(429,854)</u>
Total	<u>\$ 12,747,518</u>	<u>\$ 3,019,681</u>	<u>\$ 15,767,199</u>

Delaware River and Bay Authority Obligation. On March 1, 2005, the Corporation entered into an agreement with the Delaware River and Bay Authority (DRBA) whereby the Corporation agreed to lease to the DRBA land and a warehouse, located at the Port, for twenty years. The rent for the entire twenty-year term of the lease was \$4,000,000, to be paid in advance. Simultaneously, the Corporation and the DRBA entered into an operating agreement in which the Corporation agreed to make guaranteed payments to the DRBA in the amount of \$21,786, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of twenty years, totaling \$4,000,000 plus interest, which ranges from 1.5% to 5.32%.

This transaction is accounted for as a loan from DRBA secured by revenue from warehouse operations. On June 1, 2007, the final draw of \$600,000 was received by the Corporation, and as of June 30, 2007, the full \$4,000,000 had been received by the Corporation. The Corporation will begin making guaranteed payments on July 1, 2007.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

LONG-TERM DEBT (Cont'd.)

The future maturities of principal and interest payments on the DRBA obligation are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 202,817	\$ 58,610	\$ 261,427
2009	205,881	55,546	261,427
2010	208,990	52,437	261,427
2011	212,147	49,280	261,427
2012	215,351	46,076	261,427
2013-2017	930,818	376,317	1,307,135
2018-2022	878,481	428,654	1,307,135
2023-2027	<u>1,145,515</u>	<u>161,620</u>	<u>1,307,135</u>
	<u>\$ 4,000,000</u>	<u>\$ 1,228,540</u>	<u>\$ 5,228,540</u>

NOTE 9 CONTRIBUTED CAPITAL

Since its inception, the Corporation has received capital contributions from the State of Delaware and Federal grants as follows:

	<u>Inception to Date</u>	<u>2007</u>	<u>2006</u>
State of Delaware	\$ 161,065,000	\$ 23,400,000	\$ 15,500,000
Federal	<u>3,092,577</u>	<u>-</u>	<u>210,414</u>
Total	<u>\$ 164,157,577</u>	<u>\$ 23,400,000</u>	<u>\$ 15,710,414</u>

The Federal capital contribution of \$210,414 in 2006 represents the amount expended by the Corporation during 2005 under the U.S. Department of Homeland Security grants.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 10 PENSION PLAN

Plan Description. The Diamond State Port Corporation Pension Plan (the Plan) is a single-employer defined benefit pension plan which covers all employees of the Corporation. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. A member may retire after completing five years of service and after reaching normal retirement age of sixty-five. Benefits fully vest after five years of credited service. Prior to 2007, benefits proportionately vested between between 5 and 10 years, fully vesting at 10 years. If an employee terminates his or her employment after at least five years of credited service but before normal retirement age, he or she may defer pension benefits until reaching retirement age. Employees who retire after reaching normal retirement age with at least five years of credited service are entitled to receive pension benefits equal to 1.75% of their final average monthly compensation multiplied by the years of credited service (not to exceed 30 years).

Disability benefits are generally the same as pension benefits, however, employees must have 15 years of credited service, subject to certain limitations. Survivors' benefits are generally equal to 50% of the pension benefit the employee would have received at age sixty-five if at least 15 years of credited service are obtained.

The Delaware Public Employees' Retirement System, which administers the Diamond State Port Corporation Pension Plan, issues a publicly available financial report, including financial statements and required supplementary information. The report may be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402, or by calling 1-800-722-7300.

The Corporation has adopted Governmental Accounting Standards Board Statement No. 27, Accounting for Pensions by State and Local Government Employers.

Funding Policy. Contribution requirements are determined by the State Board of Pension Trustees principally based on an actuarially determined rate. Plan members are required to contribute 2% of their compensation. Interest is credited at the rate of 7% per year.

Annual Pension Cost and Net Pension Obligation. The Corporation contributed 100% of its annual required contribution during the fiscal years 2007, 2006 and 2005. Accordingly, there was no net pension obligation as of June 30, 2007, 2006 and 2005. The annual pension cost was equal to the annual required contribution of \$597,836 in 2007, \$681,676 in 2006, and \$356,596 in 2005.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

PENSION PLAN (Cont'd.)

The annual required contribution for the current year was determined as part of the June 30, 2006 actuarial valuation (the most recent valuation) using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 4.75% which included an inflation component of 3.75%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006 was 16 years.

The following provides an analysis of the funding progress of the Plan as of June 30, 2006, 2005, and 2004:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratios (1)/(2)	Annualized Covered Payroll	UAAL as a Percentage of Covered Payroll (3)/(5)
June 30, 2006	\$10,360,900	\$12,737,800	\$2,376,900	81.3 %	\$11,130,000	21.3 %
June 30, 2005	\$8,948,000	\$9,732,000	\$ 784,000	91.9 %	\$ 9,248,000	8.5 %
June 30, 2004	\$8,140,000	\$9,049,000	\$ 909,000	90.0 %	\$ 8,950,000	10.2 %

NOTE 11 LEASE COMMITMENTS

The Corporation also leases various equipment and outside storage space on a short-term basis for its operations. Rental expense was \$669,632 and \$1,159,660 for 2007 and 2006, respectively.

NOTE 12 RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries and illnesses to employees, and natural disasters. The Corporation has obtained commercial insurance to cover the risk of these losses with the exception of workers' compensation claims, where the Corporation is self-insured through the State of Delaware's self-insurance program. Settled claims have not

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

RISK MANAGEMENT (Cont'd.)

exceeded the commercial insurance limits in any of the past five fiscal years. The Corporation was obligated to pay to the State's program a monthly charge equal to \$1.60 and \$1.60 per \$100 of payroll which was \$213,114 and \$219,338 for the years ended June 30, 2007 and 2006, respectively.

NOTE 13 DEFERRED COMPENSATION PLAN

The Corporation offers all full-time employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until a future time. The employee may withdraw funds upon termination of the employment relationship with the Corporation, retirement, death, or unforeseeable financial hardship. The Corporation does not make contributions to the plan.

Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. The Corporation has very little administrative involvement, performs no investing function, and has no fiduciary responsibility for this plan. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants and are not subject to claims of the Corporation's creditors. Accordingly, these plan assets are not reported as a part of these financial statements.

NOTE 14 MAJOR CUSTOMERS

Two major customers of the Corporation accounted for approximately 28.8% and 24.3% of operating revenues for the year ended June 30, 2007. The same two customers accounted for approximately 20.1% and 22.2% for the year ended June 30, 2006.

NOTE 15 COLLECTIVE BARGAINING

The Corporation employs 292 full-time and part-time benefits eligible employees. Seventy-five (75) full-time employees are represented by the International Longshoreman's Association - Local 1694-1, under a collective bargaining agreement ratified on September 2005 which expires September 30, 2007. One hundred forty-nine (149) part-time employees (only those working over 800 hours in a calendar year) are represented by the International Longshoremen's Association - Local 1694-1B, under the same collective bargaining

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

COLLECTIVE BARGAINING (Cont'd.)

agreement. Eleven (11) full-time employees are represented by the International Brotherhood of Teamsters - Local 326, under a collective bargaining agreement. There are fifty-seven (57) administrative employees not covered under collective bargaining agreements. The Corporation also employs a number of casual employees hired as needed on a daily basis to supplement the unionized work force that are not covered by a collective bargaining agreement.

NOTE 16 COMMITMENTS AND CONTINGENCIES

Construction and Renovation Contracts. The Corporation has various contracts for construction and renovation of significant facilities located on its property at the Port in accordance with the Capital Budget approved by its Board of Directors. As of June 30, 2007 the Corporation had construction in progress of \$1,462,510. Funding for capital projects has been received from operations, the State of Delaware and the U.S. Department of Homeland Security. As of June 30, 2007, the Corporation had \$20,728,924 in cash and investments committed to capital projects.

Environmental Contingencies. Under the provisions of the Port of Wilmington Acquisition Agreement dated September 1, 1995, the City retains responsibility for all liabilities under environmental laws that arise out of, or result from, any condition existing at the Port on or before, the agreement closing date, September 8, 1995.

On February 14, 2002, the Agreement was amended and in conjunction with the prepayment of the Port Deferred Payment Note, the Corporation agreed to assume responsibility for \$2,000,000 of potential environmental liabilities. To date, no such liabilities have been identified.

Litigation and Claims. The Corporation is party to various claims and legal proceedings which normally occur in governmental and port operations. These claims and legal proceedings are not likely to have a material adverse impact on the Corporation. In addition, the Corporation currently has approximately \$300,000 accrued for pending claims or threatened litigation for which unfavorable outcome is considered probable.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 17 INSURANCE RECOVERIES

Insurance recoveries include in other operating revenue amounted to \$0 and \$239,933 in 2007 and 2006, respectively.

NOTE 18 SUBSEQUENT EVENTS

On August 18, 2007, the Corporation entered into an agreement to borrow \$401,200 from a local commercial bank for the purchase of two 45,000 lbs capacity fork lift trucks. The loan has an interest rate of 7.4% and a term of seven years.

NOTE 19 RECLASSIFICATIONS

Reclassifications were made to certain prior year amounts in the Statement of Cash Flows in order to conform with the current classifications. The reclassifications have no effect on reported net change in cash and cash equivalents.